



DEPARTMENT OF HEALTH & HUMAN SERVICES

Program Support Center
Financial Management Service
Division of Cost Allocation

April 17, 2001

26 Federal Plaza-Room 41-122
New York, New York 10278
PHONE: (212)-264-2069
FAX: (212)-264-5478

Mr. Martin Benison
Comptroller
The Commonwealth of Massachusetts
One Ashburton Place
Boston, Massachusetts 02108

Dear Mr. Benison:

The original and one copy of a negotiation agreement approving the central service costs of your state/locality are enclosed. This agreement reflects an understanding reached between your organization and a member of my staff concerning the central service costs that may be included in the costs of your departments and agencies. The original must be signed by a duly authorized representative of your organization and returned to my office; retain the copy for your file. We will reproduce and distribute the agreement to the appropriate Federal agencies for their use.

As a result of this negotiation, the State will address the following in future submissions:

1. Central Service Plan - Section I

- a. Organization Chart - Provide a detailed organizational chart that would reflect the placement of each central service agency (both unbilled and billed), and all departments and other units of government even though they may not be shown as benefitting from the central service functions.
- b. The fixed central service costs for fiscal years ended June 30, 2001 amounting to \$44,159,920 include final carryforward of over-recovery of \$2,932,673 from fiscal year ended June 30, 1999.
- c. The State should provide a written explanation or analysis of any significant proposed increase in an individual component (e.g. Budget, State Comptroller, etc.) of the plan over the previous year. A significant increase would be ten percent or more over the actual amount negotiated the previous year for one component, e.g., State Comptroller. In addition, use of new allocation statistics or significant changes in statistical bases historically used should be explained.

- d. Attorney General - The costs associated with the Municipal Law Unit were inadvertently included as allowable Central Service costs in the current plan. The proposal based on actual costs for the State's fiscal year 2000 will include an adjustment to correct for this overstatement of fiscal year 1999 costs.

2. Section II of Cost Allocation Agreement

- a. All future plans must document the billing rates, the procedures used, and treatment of over/under recoveries for each item listed under Section II: Billed Costs of the enclosed negotiation agreement.
- b. Information Technology Division - The annual reconciliation of costs to charges on an A-87 acceptable basis has not yet been completed. Both the FY 1999 and 2000 reconciliations must be submitted for review as part of the next proposal.
- c. Workers' Compensation - Our review determined that two State Agencies have not been included in billings for this cost. By legislative directive the Commission for the Blind and the Rehabilitation Commission were not billed for any costs related to the operation of the Workers' Compensation fund. Since this fund receives no direct appropriation of funds, costs related to the two excluded agencies must be recovered through billings to all other benefitting agencies. This cost shifting is in direct violation of OMB Circular A-87. Future billings for Workers' Compensation must include all benefitting agencies as required by the Circular.
- d. Unemployment Insurance - This cost is billed to State agencies at .2% of all salaries and wages. For those salaries covered by the insurance the amount billed is transferred to the Department of Employment and Training which administers the program. However, a significant number of employees are not covered by this insurance and should not be subject to the .2% billing. As a consequence, Unemployment Insurance was overbilled by \$406,000 during FY 1999. Your next proposal must include a final reconciliation of salaries and wages incorrectly billed to determine the impact, if any, on claims for Federal reimbursement of this cost.

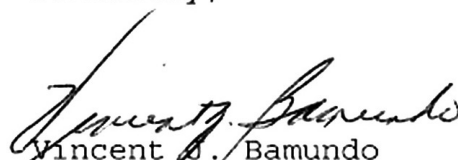
April 17, 2001

- e. Terminal Leave - As noted in my letter to Eric Berman dated March 2, 2001, the State has been using an unallowable method of charging lump-sum payments for unused vacation and sick time, paid to employees upon termination of employment, to Federal programs. It was agreed that procedures would be developed to charge these costs in accordance with the provisions of Circular A-87. Please provide us with any relevant memorandums or instructions related to the revised costing procedures.

Please acknowledge your concurrence with the comments and conditions cited above by signing this letter in the space provided below and return it to me together with the original of the enclosed negotiation agreement to the following address:

Department of Health and Human Services
Division of Cost Allocation
26 Federal Plaza, Room 41-122
New York, New York 10278
(212) 264-1823

Sincerely,



Vincent G. Bamundo
Director, Division of
Cost Allocation

Enclosures

Concurrence:

Martin J Benison

Name


~~Comptroller~~
Title

July 10 2001
Date

COST ALLOCATION AGREEMENT
STATE AND LOCAL GOVERNMENTS

COPY

STATE/LOCALITY:

Commonwealth of Massachusetts
Boston, MA 02133

DATE: April 17, 2001

FILING REF.: The preceding
Agreement was dated 5/1/00

SECTION I: ALLOCATED COSTS

The central service costs listed in Exhibit A, attached are approved on a Fixed basis and may be included as part of the costs of the State/local departments and agencies indicated during the fiscal year ended 6/30/01 for further allocation to Federal grants, contracts and other agreements performed at those departments and agencies.

SECTION II: BILLED COSTS

In addition to Section I, which provides for services furnished but not billed, the services listed below are furnished and billed to State/local departments and agencies.

1. Fringe Benefits (See Addendum)
2. Space Usage (See Addendum)
3. Data Center: Computer Services
Telecommunications
4. Support Services: Motor Vehicles
Central Reproduction
5. Postage
6. Audit Costs: State Auditor
Single Audits
7. Employee Health and Welfare (See Addendum)
8. Medicare Tax
9. Universal Health Insurance
10. Extended Leave of Absence Chargeback
11. Worker's Compensation: Payments
Litigation Unit
12. Unemployment Insurance
13. Records Center

ADDENDUM TO RATE AGREEMENTApril 17, 2001
Agreement Reference Date

INSTITUTION: Commonwealth of Massachusetts

ADDRESS: Boston, MA 02133

FRINGE BENEFIT RATE

TYPE	EFFECTIVE PERIOD		RATE	LOCATIONS	APPLICABLE TO
	FROM	TO			
FIXED	7/1/99	6/30/00	24%	All	Regular Employees
FIXED	7/1/99	6/30/00	25%	All	Uniformed Employees
FIXED	7/1/00	6/30/01	29%	All	Regular Employees
FIXED	7/1/00	6/30/01	37%	All	Uniformed Employees

*Base: Salaries and Wages (see comments below)

Treatment of Fringe Benefits: Fringe benefit applicable to direct salaries and wages are treated as direct costs.Fringe benefit rates are approved on a fixed basis for the noted fiscal year and should be used by grantee agencies for the following purposes:

- (a) For budgeting purposes on grant award applications.
- (b) For billing purposes.
- (c) For inclusion in their indirect cost rate proposal and must be treated as either direct or indirect cost consistent with treatment accorded similar cost charged to the Federal programs.

Note 1:

Treatment of Paid Absences: Vacation, holiday, sick leave pay and other absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims for the costs of these absences are not made.

Note 2:

The following fringe benefits are included in the fringe benefit rates:

- Retirement/Pension
- Health Benefits

April 17, 2001
 Agreement Reference Date

INSTITUTION: Commonwealth of Massachusetts

ADDRESS: Boston, MA 02133

Note 3 :

Health and Welfare Fund: In accordance with union contracts the Commonwealth makes the following weekly contributions to this fund for the use of employees in obtaining dental and optical services:

<u>Bargaining Unit</u>	<u>Per Week/Per Employee</u>	
	<u>7/1/99 - 6/30/00</u>	<u>7/1/00 - 6/30/01</u>
NAGE Unit 1,3,6	\$8.00	\$8.00
SEIU 8&10		
COPS old Units 51/52		
Alliance Unit 2,	\$7.00	\$8.00
SPAM Unit 5A,		
MNA Unit 7,		
MOSES Unit 9		
MCOFU Unit 4	\$7.50	\$8.00
New DOC Captains		\$8.00

Note 4 :

The following rates are approved by this agreement for use in identifying the cost of space occupancy in certain State owned buildings:

<u>Building</u>	<u>7/01/00 - 6/30/01</u>
	<u>Cost Per Sq. Ft.</u>
McCormack	\$16.36
Hurley	\$12.27
Saltonstall	\$ 9.58
Lindemann	\$18.52
State House	\$15.67

SECTION III: CONDITIONS

The amounts approved in Section I and the billings for the services listed in Section II are subject to the following conditions:

- A. LIMITATIONS: (1) Charges resulting from this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. (2) Such charges represent costs incurred by the State/locality which are legal obligations of the State/locality and are allowable under OMB Circular A-87. (3) The same costs that are treated as indirect costs are not claimed as direct costs. (4) Similar types of costs are accorded consistent accounting treatment. (5) The information provided by the State/locality which was used to establish this Agreement is not later found to be materially incomplete or inaccurate.
- B. ACCOUNTING CHANGES: This Agreement is based on the accounting system purported by the State/locality to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the Cognizant Agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from an allocated cost to a billed cost. Failure to obtain approval may result in cost disallowances.
- C. FIXED AMOUNTS: If fixed amounts are approved in Section I of this Agreement, they are based on an estimate of the costs for the period covered by the Agreement. When the actual costs for this period are determined, adjustments will be made to the amounts of a future year to compensate for the difference between the costs used to establish the fixed amounts and actual costs.
- D. BILLED COSTS: Charges for the services listed in Section II will be billed in accordance with rates established by the State/locality. These rates will be based on the estimated costs of providing the services. Adjustments for variances between billed costs and the actual allowable costs of providing the services, as defined by OMB Circular A-87, will be made in accordance with procedures agreed to between the State/locality and the Cognizant Agency.
- E. USE BY OTHER FEDERAL AGENCIES: This Agreement was executed in accordance with the authority in OMB Circular A-87, and should be applied to grants, contracts and other agreements covered by that Circular, subject to any limitations in Paragraph A above. The State/locality may provide copies of the Agreement to other Federal Agencies to give them early notification of the Agreement.
- F. SPECIAL REMARKS:

SEE ADDENDUM

BY THE STATE/LOCALITY:

Commonwealth of Massachusetts
State/Localty

(Signature)

Martin J. Benison
(Name)

Comptroller
(Title)

July 10, 2001
(Date)

BY THE COGNIZANT AGENCY ON BEHALF OF
THE FEDERAL GOVERNMENT:

DEPARTMENT OF HEALTH AND HUMAN SERVICES
(Agency)

(Signature)

Vincent J. Bamundo
(Name)

Director, Div. of Cost Allocation
(Title)

April 17, 2001
(Date)